

AF-KLM still making losses, expects positive EBITDA in Q3



I Letter from the Director of Air France-KLM

François Robardet

Representative of the employees and former employees shareholders PS and PNC

N°819, August 2, 2021

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Monday's Press Review

> Still making losses, Air France-KLM expects positive EBITDA in Q3

(source Le Journal de l'Aviation) July 30 - **Air France-KLM reported second-quarter revenues of 2.75 billion euros**, up 143.1% as it benefited from a favorable comparison with the second quarter of 2020 when the group was grounded. **As a result, the EBITDA loss was sharply reduced to 248 million euros**, and the net loss was almost halved to 1.49 billion euros. On the operational side, capacity was more than quadrupled compared to the second quarter of 2020 and traffic increased almost fivefold.

The results for the first half of the year are more bleak. Revenues were down 18% to €4.9 billion, EBITDA loss stagnated at €874 million but net loss was reduced by €1.4 billion to €2.97 billion. With passenger numbers down 38.7% to 11.85 million, traffic fell 44.7% for stable capacity (-1.6%).

Cargo is the only activity that is doing well. Revenues rose by 63% in the second quarter (67.9% in the first half), thanks to a 66% increase in capacity for a 77.5% increase in traffic and to the persistent effect of global undercapacity on load levels and rates.

Air France-KLM is nevertheless seeing the first signs of recovery since June and indicates that its capacity in the third quarter will be between 60% and 70% of its 2019 level and that it could publish a

positive EBITDA. On the other hand, **due to the** uncertainty that continues to weigh on travel restrictions and in particular **the decision of the United States not to offer reciprocity for the reception of Europeans on its territory, the group does not risk a forecast for the fourth quarter.**

However, it says it still expects its capacity to return to its 2019 level in 2024. By then, the number of aircraft of the group will be reduced by 7% in 2022.

My comment: *EBITDA (Earnings Before Interest, Taxes, Depreciation & Amortization) is an important indicator because it allows to assess the operational profitability of a company without taking into account the main accounting treatments that may differ from one company to another.*

To date, Air France-KLM and IAG (including Iberia and British Airways) have published their half-year results (those of the Lufthansa group will be published shortly). Looking at the EBITDA of the two groups over the last 12 months, we see that Air France-KLM's EBITDA (-1.723 billion euros) is less bad than IAG's (-2.750 billion euros).

This difference of one billion euros reflects the greater resilience of the Franco-Dutch group. Its global network, more diversified than that of IAG (highly concentrated on the North Atlantic) has enabled it to better weather the crisis.

Their traffic forecasts for the third quarter (60% of 2019 for Air France-KLM, 45% for IAG) reinforce this judgment.

> **Schiphol and Aéroports de Paris beëindigen samenwerking (Schiphol and Aéroports de Paris end their cooperation)**

(source ANP) July 30 - **Royal Schiphol Group joined forces with Aéroports de Paris in October 2008.** The idea was, some four years after the merger of Air France and KLM, that the two airport companies together would be better able to withstand the competition. One way to do this was to reduce costs. For example, the airport companies jointly purchased equipment such as snowplows.

As part of this agreement, Schiphol took an 8 per cent stake in its French counterpart. ADP, in turn, took a similar size stake in Schiphol. It has been **difficult to reach a new agreement, especially on the financial part of the cooperation**, explains a Schiphol spokesman. The Dutch airport company, which also owns Rotterdam-Hague Airport

and has a majority stake in Eindhoven Airport, was willing to continue the cooperation, the spokesman said.

The separating cooperation partners will sell their respective shares within 18 months of the end of their alliance, until May 30, 2023, at the latest. ADP's stake in Royal Schiphol Group has a value of €370 million, according to the French company. The ADP shares held by Schiphol were booked at the end of last year for €639 million.

Transavia's traffic increased tenfold in Q2

(source Le Journal de l'Aviation) July 30 - **With its activity close to zero in the second quarter of 2020, Transavia could only report a spectacular improvement in the second quarter of 2021.** Its traffic has increased tenfold over the period, with capacity up 1070%. The number of passengers has evolved in the same proportions: with 1.175 million people on board its aircraft, their number has increased thirteenfold.

Revenues reached 126 million euros (+655%) and operating income improved slightly, although remaining negative by 98 million euros.

In the first half of the year, the number of passengers carried reached 1.53 million, down 37.4% compared with the first half of 2020 (with its first two months of normal activity). Traffic fell by 45.6% for a capacity reduction of only 17.8%. Over the period, revenues reached 163 million euros (-37%) and the operating result slightly widened to -218 million euros.

Transavia continued to suffer from travel restrictions in Europe and North Africa. However, it is in the front line to benefit from the beginning of the recovery which has been taking shape since June. Observing a very strong increase in demand and bookings, Nathalie Stubler, **CEO of Transavia France, had already announced in June that the company would offer the same number of seats in July-August as for the same period in 2019. The company has also increased its fleet by nine aircraft in the first half of the year to take full advantage of growth opportunities.**

My comment: *The figures mentioned in the article concern the Transavia activity in the Netherlands and in France.*

For the past few weeks, the low-cost subsidiaries of the Air France-KLM group have been competing with each other to offer flights according to the evolution of health regulations.

American Airlines seeks to save fuel at all costs

(source Le Figaro) July 27 - Sensitive hearts, refrain. In a recent message to his pilots, the head of flight operations at American Airlines made a very specific request: "Use all available fuel-saving strategies when possible (...) **Every liter of kerosene saved is useful.**" While there's no talk of hovering planes yet, or shutting down engines mid-flight, **the request illustrates the fear on the part of America's largest airline of a shortage of jet fuel in the United States.**

Between the rush of passengers to airports, the lack of trucks, or the priority given in pipelines to gasoline rather than fuel used in aviation, stocks of kerosene in some airports "are low" confirmed Airlines for America, the local airline lobby. And the problem could last until the end of the summer.

If the other companies of the country (Delta, Southwest and United Airlines) remain discreet on the subject, it had already been raised last weekend by the local authorities.

Among the solutions envisaged by the group that transports more than 210 million people per year: reduce the number of passengers to transport more kerosene to destinations where the precious liquid is lacking. This would mean a real loss of revenue at a time when American Airlines is back in the black in the second quarter, after a net loss of \$9 billion in 2020.

But an effort may be needed as traffic picks up, to avoid running out of fuel.

My comment: *The shortage of raw materials is being felt in all branches of industry, whether in Europe or the United States.*

But that the U.S., the world's top oil-producing country since 2017, is in danger of running out of gasoline is a real surprise.

IAG down after its quarterly results

(source CercleFinance) July 30 - **IAG** (International Airlines Group) **devalues by more than 6% in London, after the Anglo-Spanish airline published an adjusted operating loss of one billion euros for the second quarter of 2021**, in line with the consensus.

No outlook was provided for the year, but for the third quarter, IAG only expects a capacity operated at about 45% of 2019 levels', points out Stifel, which expected it for its part around 60%.

If the business outlook appears weak, we continue to believe that IAG is the only European company that remains fundamentally investable after the crisis," says the broker, who points in particular the restructured costs at British Airways.

My comment: *The IAG group has suffered the consequences of travel restrictions and mandatory quarantines for travelers returning to most destinations.*

While its results are in line with analysts' consensus, it is worth noting that Air France-KLM group's results are better than consensus.

> **The 3 Air Austral Airbus A220 expected in Reunion on August 12, 2021**

(source Aerobuzz) July 31 - **The first two Air Austral A220-300s left Mirabel on July 28, 2021, bound for Paris-CDG**, where they were officially registered F-OLAV (volcano colors) and F-OMER (ocean colors) by the DGAC. The third aircraft, F-OTER (in the colors of the circus), took off from Mirabel on July 30, 2021, at 08:00 local time. The three A220-300s will go to the Airbus Delivery Center in Toulouse during the first week of August to meet the training needs of the company's pilot instructors, before starting their journey to Reunion Island. The company's three new aircraft are scheduled to land on Reunion Island on August 12, 2021. **They will then be deployed on Air Austral's regional network, replacing the two Boeing 737-800NGs and the Air Austral ATR72-500.**

My comment: *To date, some 100 A220-300s have already been delivered.*

Air Austral is the first French operator of A220s, which it will deploy on its regional network.

On its long-haul network, Air Austral is facing competition from French Bee and Corsair, but above all from Air France, which has significantly increased its offer on the Caribbean - Indian Ocean network.

> **Air France unveils its first A220-300**

(source BFM) July 26 - Two years after announcing the renewal of its fleet of Airbus A318s and A319s, **Air France has unveiled the first of 60 Airbus A220-300s it has ordered for its short and medium-haul flights.** The aircraft has just left the Airbus paint shop in Mirabel, near Montreal, where it was painted in the airline's colors. The aircraft is

manufactured in the former Bombardier's Canadian plants.

The A220-300, which should be delivered at the end of September, will be able to accommodate up to 148 passengers and will offer seats equipped with USB ports and Wi-Fi access. In a press release, Air France points out that the aircraft will consume "20% less fuel than the aircraft it replaces" thanks to "the use of composite materials". Its noise footprint has also been reduced by 34%.

The A220-300 "will play a decisive role in achieving Air France's sustainable development objectives, including a 50% reduction in absolute CO2 emissions on the domestic network from Paris-Orly and from region to region by 2024, and a 50% reduction in CO2 emissions per passenger/km by 2030", the company said.

Before entering service, the first Air France A220-300 "will undergo a series of ground and flight tests". It will then be flown to Paris where it will be "used for more than a month to train the airline's flight crews".

Eight instructor pilots have already been trained in Montreal and are currently training their colleagues using a flight simulator. They will then have to make 20 flights in real conditions before obtaining the A220-300 type rating, which should eventually benefit 700 Air France pilots.

As for the cabin crews, 14 flight attendants trained in Zurich are currently finalizing the drafting of "training manuals and content that they themselves will be in charge of delivering as of September 2021", according to Air France. Two A220 door models have also been made available by the Air France Crew Academy near Paris-Orly to train 2,500 flight attendants.



My comment: *The arrival of the A220-300 in the Air France fleet is in line with the group's strategy, mentioned in the press release on the second quarter results:*

*"To make the most of the recovery and prepare for the future, Air France- KLM has continued its transformation in all its activities and in particular stepped up its efforts to **lead the way towards sustainable aviation.**"*

> **How the ADP group wants to avoid waiting time in its airports**

(source Le Point) July 29 - **An apocalyptic situation in the airports had been foreseen in June with the return in number of passengers.** Thus, Air France expected 80,000 passengers per day at Paris-Charles-de-Gaulle airport this last weekend of July. "It was not the case", says Augustin de Romanet, who presented the half-yearly results of the ADP group this morning. "Overall, the flights are rather on time," said Edmond Richard, Deputy CEO of Air Caraïbes, which operates up to nine flights a day at Orly. More precisely: operated, because the skies have just darkened over the West Indies with the state of health emergency declared in Martinique and Guadeloupe (including Saint-Martin and Saint-Barthélemy), causing a wave of cancellations and postponements. "The regulations change every four days," notes the director of security.

Health security and queues at check-in are two of Augustin de Romanet's priorities in his Paris airports, where passengers have to go through several successive and sometimes redundant checks. At check-in, the airline checks the ticket, the health pass (mandatory as of

August 9), and the existence of any compelling reasons. This is followed by a security check with a visit to the **"screening" station. The wait can be long at Orly-3, where the subcontractor has 15 vacancies and is unable to recruit. Then, the border police** check, in addition to the identity and the health pass, the validity of any compelling reason, which **can be long and give rise to palaver. "I'm not the chief of police and I can't do anything about it when the officials close the checkpoints," says the head of the ADP group**, who nevertheless receives an SMS as soon as the passengers' wait exceeds 30 minutes. This is enough to fuel discussions during regular meetings with the prefect in charge of the Paris airports or during visits by the minister in charge. As an improvement, different queues could be set up for passengers with a health pass or those using Corsair's Facilipass or Air France's Read2Fly, which has not been extended to its subsidiary Transavia.

(...)

What happens to a passenger stuck in a queue? The flight boarding is sometimes delayed. This is the case at Air Caraïbes, which however only reports very few delays. At Air France, the number of passengers concerned and the destination (long-haul or not) are the criteria for choice; otherwise, **the passenger left on the ground is "reprotégé" free of charge on the next flight. This is not the case with easyJet, which imposes a double penalty on passengers by asking them to pay for a ticket again.** At Transavia, they recommend arriving at the airport two to two and a half hours before the flight, they say they are flexible.

(...)

My comment: *The situation in the Paris airports is far from satisfying the airline passengers, nor the agents who have to deal with the many dissatisfied people.*

Whatever the CEO of the ADP group may say, the lack of staff at the PIF (screening stations) is his responsibility. The fact of having subcontracted this activity does not exonerate the airport manager from his responsibility.

Africa and the rush to renationalize flagship companies

(source Le Journal de l'Aviation) July 26 - In **recent years, on the African continent, there has been a renationalization of flag carriers**, a trend accelerated by the health crisis. At the beginning of July, Cabo Verde Airlines returned to state ownership two years after the opening of its capital to Icelandic investors. In April, the Seychelles

government took over control of Air Seychelles after Etihad negotiated its departure. The renationalization process of Kenya Airways, which began in 2019, is also on track. Even after restructuring, others such as Air Zimbabwe still emerge as a 100% state-owned company.

For Ugandan aviation expert Derek Nseko, **this process should continue to avoid cascading bankruptcies in the midst of the pandemic.** "Nationalization is currently a survival path because it is about absorbing the burden of historically heavy debt. It is more a question of governments ensuring the sustainability of jobs but also maintaining the public utility objectives of these companies, he argues.

In 2020, African airlines lost \$10.21 billion in revenue due to the impacts of the pandemic. For the first half of 2021, estimates are for \$5 billion in losses. **"This poor performance is a direct threat to the survival of the African aviation industry if the trend continues,"** warns the African Airlines Association (AFRAA). Air Namibia and South African Express have been placed in liquidation; others such as Comair and Air Mauritius have been placed in receivership.

Ghanaian Richard Kyereh, an air transport consultant and former commercial director of Africa World Airlines (AWA), wants to see this renationalization process go beyond the health crisis. For him, African governments are increasingly understanding the important role aviation plays in their economies. We are talking about a sector that contributed \$63 billion to the GDP of African economies and supported 7.7 million jobs before the pandemic." **The nationalization of airlines, in this regard, responds to a need to position themselves in order to better take full advantage of the benefits offered by the Single African Air Transport Market (SAA) and the African Continental Free Trade Area (AfCFTA) currently being implemented.** The AfCFTA brings together a single community of 1.2 billion people with a combined GDP of \$2.5 trillion, eliminating 90% of tariffs.

Chinedu Eze, an aviation journalist with the Nigerian newspaper ThisDayNewspapers, is pessimistic about the results of the renationalizations. "Because of the corruption inherent in many African countries, it is difficult to successfully manage a nationalized airline. This idea is shared by his colleague Mathias Okolimong, who recalls that flag carriers, rightly or wrongly seen as national pride, have been noted in recent years by scandals of nepotism and especially by the strong interference of politics in their management. Both also agree that, in the long run, the nationalization of African companies could become a great obstacle to healthy competition and competitiveness, because it creates monopolized markets. **"Nationalization is not the answer and there is absolutely no privilege for African governments to have full ownership,"** commented NowelNgala, Asky's commercial director and chairman of AFRAA's aeropolitical committee. "Instead, African carriers

should strive to have a bankable balance sheet and business model [...]
As evidence, we have seen two successful African carriers come through the most difficult time of this pandemic and continue to thrive without any pay cuts, layoffs or financial support from any government." It is **clear that the African aviation map will emerge redrawn from this health crisis**. On the one hand, companies will have gone out of business, leaving thousands of workers unemployed; on the other, poorly performing state-owned airlines will continue to survive on taxpayers' money; and on the other hand, indebted private carriers will try to get back on their feet after taking out large bank loans. It is **here that public policy intervention is greatly needed** - states are sovereign in matters of taxation - **to finally create a healthier operating environment, free of the plethora of taxes that add an additional burden to an already suffocated industry**.

***My comment:** Whatever the continent, leaders are aware that the economic development of countries depends in part on air transport.*

Without doubt, Africa still lacks a structure that could, like the European Commission, verify the correct application of treaties and decisions at the European level, as well as the allocation of public subsidies.

Bonus Article

> Saved by the French State, can Air France-KLM buy Boeing 737 MAX at the expense of the Airbus A320 Neo?

(source La Tribune) July 31 - Will Air France-KLM buy Airbus A320 Neo family, Boeing 737 MAX or both? This is the question that has been raised since Ben Smith, CEO of the Franco-Dutch group, recently announced the launch of a tender with the two manufacturers for an order of 160 medium-haul aircraft, with a capacity ranging from 150 to 220 seats. A pharaonic order worth more than 16 billion dollars at list price. **A record for the group since its creation in 2004 following the takeover of KLM by Air France.**

Boeing a "natural" advantage?

The outcome of the tender is uncertain. The equation is indeed extremely complex. In a world "without influence", Boeing would have had a natural advantage insofar as the Air France-KLM tender aims to replace B737 NGs, which entered service in the mid-1990s. Indeed, it is intended for KLM, its low-cost subsidiary Transavia Holland, and Transavia France, a subsidiary of Air France, three airlines equipped

only with Boeing 737s. Air France is not involved in the tender. Today, the French carrier operates only A320 family aircraft, and has already made its medium-haul fleet choices in favor of the A220, a smaller aircraft than the A320 or the B737. However, for reasons of crew training costs and maintenance optimization, a company renewing its fleet often has an interest in keeping the aircraft model it already uses. Since the B737 MAX is a derivative of the B737 NG, it would be logical, on paper, for Air France-KLM to place an order with Boeing.

The choice of the Boeing 737 MAX is far from obvious

However, the choice of the 737 MAX is anything but obvious. Without even mentioning the deplorable image that sticks to this aircraft following the two fatal accidents in 2018 and 2019, in which the design of the aircraft was blamed, it seems hardly imaginable that Air France-KLM, a French group, saved from bankruptcy by the French government (which has taken advantage of the situation to increase its stake in the group to 30%), snub the A320 Neo, the Airbus best seller that the whole world is clamoring for, to buy an American plane for the biggest order in its history. No one, in France at least, would understand this. Neither public opinion, nor politicians, nor Airbus employees, when the French government's strategy for direct aid during the crisis was precisely to favor Airbus customers like Air France rather than the aircraft manufacturer itself. This was done in order to allow them to continue fulfilling their orders, and in turn to bring work to the entire aeronautics industry. This was the case for the A350, which entered the Air France fleet in force during the crisis.

By choosing the A220, Air France has opted for a Canadian aircraft

An American choice would be all the more complicated to pass in France as it would be added to another choice, of Air France this time, which also makes some people in France cringe: that of the order of 60 A220s, signed in 2019 to replace a large part of the medium-haul fleet of the French company, composed until now of classic A320s. A choice at the expense of the A320 Neo. On paper, no problem: it is indeed two Airbus. Except that the A220 does not bring any workload to France. The reason is that this aircraft is Canadian. It is none other than the former Bombardier C-Series, assembled near Montreal with few French manufacturers on board. Bought by Airbus in 2017, it was rebranded with an "airbusian" name. Passed under the radar two years ago thanks to the skill of Ben Smith, this choice for the Canadian plane would not fail to resurface. Because a purchase of the B737 MAX would mean a total absence of Airbus A320 Neo family in the group's fleet. In other words, the aircraft that generates employment in France would be excluded from the renewal of the group's medium-haul fleet. Not an easy thing to get through politically.

The Dutch are very attached to Boeing

However, it is difficult to say that Airbus has a good chance of winning the bid. Although Air France-KLM is a French group, listed on the Paris stock exchange, with the French government as its main shareholder, the weight of Dutch influence is colossal within the group. And given the complex balances to be found between Air France and KLM, but also between the French and Dutch governments, the Dutch side will have to be accommodated. The latter is very attached to Boeing," says an internal source. Transavia France is less attached to Boeing insofar as the group's strategy of having two types of aircraft for Air France and Transavia (in order to keep the two companies separate) has been shattered since Ben Smith took over. Smith has negotiated several agreements with Air France pilots, assuring them that they would not lose anything by developing a low-cost offer. Transavia's pilots are Air France pilots and therefore have dual qualifications, Airbus and Boeing. Switching to an Airbus fleet for Transavia France would therefore not pose a problem.

A mixed order between Airbus and Boeing?

In the end, some observers are betting on a mix of orders between the two manufacturers: Airbus A320 Neo family for Transavia France, and more precisely A321s, the highest capacity version, and Boeing 737 MAX for KLM and Transavia France. From 50 aircraft onwards, all the group's airlines generate economies of scale, explains an expert. However, there is one last element that complicates the equation. And not the least of these is the price of the aircraft. Air France-KLM will logically want to obtain the best prices. But Boeing is the most likely to lower its prices. After the 737 MAX's setbacks, the American giant has to win contracts, especially with major companies in the sector, to reassure the market. Since the MAX was put back in the air, Airbus has set a course of action: not to launch a price war so as not to hinder its rival's commercial relaunch, while its order book is overflowing. More than anything else, Airbus fears that Boeing's market share will plummet to such a level that the U.S. aircraft manufacturer will be forced to launch a new aircraft in the medium-haul segment. This decision would force the company to launch a successor to the A320 Neo well before 2035, as previously planned. An aircraft that would therefore not have all the expected performance in terms of CO2 emissions reduction. But that could be enough for Airbus to drop the Air France-KLM contract. In a competition, no one likes to lose a game. Even less so at home.
(...)

My comment: *I will not comment on the current Air France-KLM tender.*

However, I would like to correct one piece of information (in bold at the beginning of the article). The amount of this tender is not a record for

the Air France-KLM group.

The catalog value of the A350 and B787 tender launched by the Franco-Dutch group in 2011 was double that of the one launched this year.

End of the press review

> Advice for employees and former employees who are shareholders

You will find on my [navigaction](#) site the modalities of access to the managers' sites.

To avoid forgetting to change your contact information each time you change your postal address, **I advise you to enter a personal e-mail address**. It will be used for all correspondence with the management organizations.

Keep all the documents related to your Air France-KLM shares in one place: all the letters you receive from the different managers, Natixis, Société Générale, your personal financial institution if you bought your shares through it.

> My comments on the Air France-KLM share price trend

Air France-KLM shares closed at **4.077 euros** on Monday 2 August. It is up slightly this week by +1.62%. The announcement of better-than-expected half-year results was offset by new restrictive health measures in the West Indies and Reunion.

Before the coronavirus epidemic, Air France-KLM shares were at 9.93 euros.

The average (consensus) analyst price for AF-KLM shares is 3.24 euros. The highest price target is 5 euros, the lowest 1 euro. You can find the details of the analysts' consensus on my blog. I do not take into account the opinions of analysts prior to the beginning of the health crisis.

Brent crude oil (North Sea) is down \$2 a barrel to \$73.

Since a low point at the end of October 2020 (\$37), it has risen steadily, until it reached \$69 at the beginning of March 2021. Since then, it has oscillated between \$69 and \$77.

As air traffic recovers, this high price is bad news for airlines.

This information is not intended to be a solicitation to buy or sell Air France-KLM shares.

You can react to this press review or send me any information or thoughts that will help me better carry out my duties as a director of the Air France-KLM group.

You can ask me, by return, any question relating to the Air France-KLM group or to employee share ownership...

See you soon.

To find the last press reviews of Monday, it is [here](#)

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| François Robardet

**Director of Air France-KLM representing the employees and former employees shareholders of PNC and PS.
You can find me on my twitter account @FrRobardet**

When I was elected, I received the support of the CFDT and the UNPNC. This press review deals with subjects related to the Air France-KLM shareholding.

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